UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2024

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

Commission File Number: 001-41059

Lulu's Fashion Lounge Holdings, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**20-8442468** **(I.R.S. Employer Identification No.)**
195 Humboldt Avenue **Chico, California** **(Address of principal executive offices)**	**95928** **(Zip Code)**

(530) 343-3545
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.001 par value per share	LVLU	Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒
As of August 9, 2024, there were 41,771,889 shares of the registrant's common stock, par value $0.001, outstanding.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q may be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "targets," "projects," "contemplates," "believes," "estimates," "forecasts," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to statements regarding our future results of operations and financial position, industry and business trends, stock compensation, business strategy, plans, market growth and our objectives for future operations.

The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, the risk factors discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023 and our other filings with the Securities and Exchange Commission (the "SEC"). The forward-looking statements in this Quarterly Report on Form 10-Q are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.

BASIS OF PRESENTATION

On August 28, 2017, we executed a reorganization of our corporate structure. Our original parent company was called Lulu's Holdings, LLC. This entity was converted to Lulu's Holdings, L.P. (the "LP"). We formed two new subsidiaries, Lulu's Fashion Lounge Holdings, Inc. and Lulu's Fashion Lounge Parent, LLC, to sit between the LP and our operating company. Our operating company, previously known as Lulu's Fashion Lounge, Inc., was converted from a California corporation to a Delaware limited liability company, Lulu's Fashion Lounge, LLC, an indirect wholly-owned subsidiary of Lulu's Fashion Lounge Holdings, Inc. In connection with our initial public offering, the LP was liquidated. Unless otherwise indicated or the context otherwise requires, references in this Quarterly Report on Form 10-Q to the terms "Lulus," "we," "us," "our," or the "Company" refer to Lulu's Fashion Lounge Holdings, Inc. and its consolidated subsidiaries.

Our fiscal year is a "52-53 week" year ending on the Sunday closest in proximity to December 31, such that each quarterly period will be 13 weeks in length, except during a 53-week year when the fourth quarter will be 14 weeks. References herein to "fiscal 2024" and/or "2024" relate to the year ending December 29, 2024 and "fiscal 2023" and/or "2023" relate to the year ended December 31, 2023. The fiscal years ending December 29, 2024 and ended December 31, 2023 consist of 52-weeks.

Throughout this Quarterly Report on Form 10-Q, we provide a number of key performance indicators used by management and typically used by our competitors in our industry. These and other key performance indicators are discussed in more detail in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Operating and Financial Metrics." In this Quarterly Report on Form 10-Q, we also reference Adjusted EBITDA, Adjusted EBITDA Margin and Free Cash Flow which are non-GAAP (accounting principles generally accepted in the United States of America) financial measures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Non-GAAP Financial Measures" for a discussion of Adjusted EBITDA, Adjusted EBITDA Margin and Free Cash Flow, as well as a reconciliation of net loss to Adjusted EBITDA and a reconciliation to non-GAAP Free Cash Flow from net cash provided by operating activities. Net loss is the most directly comparable financial measure to Adjusted EBITDA and net cash provided by operating activities is the most directly comparable financial measure to Free Cash Flow, required by, or presented in accordance with GAAP.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)
(unaudited)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 1,781	$ 2,506
Accounts receivable	3,786	3,542
Inventory, net	37,667	35,472
Assets for recovery	3,644	3,111
Income tax refund receivable	2,559	2,510
Prepaids and other current assets	5,752	5,379
Total current assets	55,189	52,520
Property and equipment, net	4,693	4,712
Goodwill	35,430	35,430
Tradename	18,509	18,509
Intangible assets, net	2,968	3,263
Lease right-of-use assets	26,863	29,516
Other noncurrent assets	1,602	5,495
Total assets	$ 145,254	$ 149,445
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 11,890	$ 8,900
Accrued expenses and other current liabilities	27,664	18,343
Returns reserve	11,623	7,854
Stored-value card liability	15,143	13,142
Revolving line of credit	—	8,000
Lease liabilities, current	5,662	5,648
Total current liabilities	71,982	61,887
Lease liabilities, noncurrent	22,460	25,427
Other noncurrent liabilities	2,101	1,179
Total liabilities	96,543	88,493
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Preferred stock: $0.001 par value, 10,000,000 shares authorized, and no shares issued or outstanding	—	—
Common stock: $0.001 par value, 250,000,000 shares authorized; and 41,739,875 and 40,618,206 shares issued and outstanding as of June 30, 2024 and December 31, 2023, respectively	42	41
Additional paid-in capital	258,493	254,116
Accumulated deficit	(209,737)	(193,205)
Treasury stock, at cost, 47,850 shares and zero shares as of June 30, 2024, and December 31, 2023, respectively	(87)	—
Total stockholders' equity	48,711	60,952
Total liabilities and stockholders' equity	$ 145,254	$ 149,445

The accompanying notes are an integral part of the condensed consolidated financial statements.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(in thousands, except share and per share amounts)
(unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Net revenue	$ 91,966	$ 106,122	$ 169,225	$ 197,098
Cost of revenue	50,083	58,726	94,696	111,741
Gross profit	41,883	47,396	74,529	85,357
Selling and marketing expenses	24,914	24,670	42,607	44,159
General and administrative expenses	21,436	24,396	42,547	48,744
Loss from operations	(4,467)	(1,670)	(10,625)	(7,546)
Interest expense	(270)	(426)	(653)	(949)
Other income, net	272	373	498	446
Loss before provision for income taxes	(4,465)	(1,723)	(10,780)	(8,049)
Income tax provision	(6,331)	(874)	(5,752)	(166)
Net loss and comprehensive loss	(10,796)	(2,597)	(16,532)	(8,215)
Basic loss per share	$ (0.26)	$ (0.07)	$ (0.40)	$ (0.21)
Diluted loss per share	$ (0.26)	$ (0.07)	$ (0.40)	$ (0.21)
Basic weighted-average shares outstanding	41,356,780	39,680,908	41,188,150	39,457,607
Diluted weighted-average shares outstanding	41,356,780	39,680,908	41,188,150	39,457,607

The accompanying notes are an integral part of the condensed consolidated financial statements.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share amounts)
(unaudited)

	For the Twenty-Six Weeks Ended June 30, 2024						
	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balance as of December 31, 2023	40,618,206	$ 41	$ 254,116	$ (193,205)	—	$ —	$ 60,952
Issuance of common stock for vesting of restricted stock units (RSUs), net of forfeiture	983,460	—	—	—	—	—	—
Issuance of common stock for employee stock purchase plan (ESPP)	52,043	—	167	—	—	—	167
Shares withheld for withholding tax on RSUs	(396,708)	—	(660)	—	—	—	(660)
Forfeited shares of restricted stock	(1,035)	—	—	—	—	—	—
Equity-based compensation	—	—	3,023	—	—	—	3,023
Net loss and comprehensive loss	—	—	—	(5,736)	—	—	(5,736)
Balance as of March 31, 2024	41,255,966	$ 41	$ 256,646	$ (198,941)	—	$ —	$ 57,746
Issuance of common stock for vesting of RSUs	575,697	1	—	—	—	—	1
Issuance of common stock under 2023 Bonus Plan	95,588		10				10
Shares withheld for withholding tax on RSUs	(151,001)	—	(280)	—	—	—	(280)
Shares withheld for withholding tax on 2023 Bonus Plan	(36,375)		(54)				(54)
Equity-based compensation	—	—	2,171	—	—	—	2,171
Repurchase of common stock	—	—	—	—	(47,850)	(87)	(87)
Net loss and comprehensive loss	—	—	—	(10,796)	—	—	(10,796)
Balance as of June 30, 2024	41,739,875	$ 42	$ 258,493	$ (209,737)	(47,850)	$ (87)	$ 48,711

	For the Twenty-Six Weeks Ended July 2, 2023						
	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Equity
Balance as of January 1, 2023	39,259,328	$ 39	$ 238,725	$ (173,871)	—	$ —	$ 64,893
Issuance of common stock for vesting of RSUs	491,769	1	—	—	—	—	1
Issuance of common stock for special compensation award	208,914	—	—	—	—	—	—
Issuance of common stock for ESPP	47,502	—	269	—	—	—	269
Shares withheld for withholding tax on RSUs	(277,606)	—	(662)	—	—	—	(662)
Forfeited shares of restricted stock	(2,720)	—	—	—	—	—	—
Equity-based compensation	—	—	4,892	—	—	—	4,892
Net loss and comprehensive loss	—	—	—	(5,618)	—	—	(5,618)
Balance as of April 2, 2023	39,727,187	$ 40	$ 243,224	$ (179,489)	—	$ —	$ 63,775
Issuance of common stock for vesting of RSUs	634,567	—	—	—	—	—	—
Shares withheld for withholding tax on RSUs	(220,843)	—	(558)	—	—	—	(558)
Equity-based compensation	—	—	4,054	—	—	—	4,054
Net loss and comprehensive loss	—	—	—	(2,597)	—	—	(2,597)
Balance as of July 2, 2023	40,140,911	$ 40	$ 246,720	$ (182,086)	—	$ —	$ 64,674

The accompanying notes are an integral part of the condensed consolidated financial statements.

LULU'S FASHION LOUNGE HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023
Cash Flows from Operating Activities		
Net loss	$ (16,532)	$ (8,215)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,710	2,306
Noncash lease expense	1,956	1,753
Amortization of debt discount and debt issuance costs	78	78
Equity-based compensation expense	4,128	9,029
Deferred income taxes	3,802	(1,569)
Changes in operating assets and liabilities:		
Accounts receivable	(244)	797
Inventories	(2,195)	(3,046)
Assets for recovery	(533)	(859)
Income taxes (receivable) payable	(50)	1,653
Prepaid and other current assets	(373)	(497)
Accounts payable	2,980	3,916
Accrued expenses and other current liabilities	15,221	4,756
Operating lease liabilities	(1,928)	(1,635)
Other noncurrent liabilities	1,617	(116)
Net cash provided by operating activities	10,637	8,351
Cash Flows from Investing Activities		
Capitalized software development costs	(738)	(1,026)
Purchases of property and equipment	(885)	(726)
Net cash used in investing activities	(1,623)	(1,752)
Cash Flows from Financing Activities		
Proceeds from borrowings on revolving line of credit	20,000	5,000
Repayments on revolving line of credit	(28,000)	(15,000)
Proceeds from issuance of common stock under employee stock purchase plan (ESPP)	167	269
Principal payments on finance lease obligations	(1,056)	(497)
Withholding tax payments related to vesting of RSUs and 2023 Bonus Plan	(763)	(637)
Repurchase of common stock	(87)	—
Other	—	(6)
Net cash used in financing activities	(9,739)	(10,871)
Net decrease in cash, cash equivalents and restricted cash	(725)	(4,272)
Cash and cash equivalents at beginning of period	2,506	10,219
Cash and cash equivalents at end of period	$ 1,781	$ 5,947

(Continued)

LULU'S FASHION LOUNGE HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023
Supplemental Disclosure		
Cash paid during the period for:		
Income taxes, net	$ 386	$ 82
Interest	$ 593	$ 918
Operating leases	$ 2,800	$ 2,595
Finance leases	$ 1,110	$ 549
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Right-of-use assets acquired under operating lease obligations	$ —	$ 17
Assets acquired under finance lease obligations	$ 31	$ 983
Purchases of property and equipment included in accounts payable and accrued expenses	$ 262	$ 29

(Concluded)

The accompanying notes are an integral part of the condensed consolidated financial statements.

LULU’S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Description of Business, Organization and Liquidity

Organization and Business

Pursuant to a reorganization, Lulu’s Fashion Lounge Holdings, Inc., a Delaware Corporation (“Lulus”, “we”, “our”, or the “Company”), was formed on August 25, 2017 as a holding company and its primary asset is an indirect membership interest in Lulu’s Fashion Lounge, LLC (“Lulus LLC”). Prior to the Company’s initial public offering, the Company was majority-owned by Lulu’s Holdings, L.P. (the “LP”). In connection with the Company’s initial public offering, the LP was liquidated.

Lulus LLC was founded in 1996, starting as a vintage boutique in Chico, CA that began selling online in 2005 and transitioned to a purely online business in 2008. The LP was formed in 2014 as a holding company and purchased 100% of Lulus LLC’s outstanding common stock in 2014. The Company, through Lulus LLC, is a customer-driven, digitally-native, attainable luxury fashion brand for women, offering modern, unapologetically feminine designs at accessible prices for all of life’s fashionable moments.

Impact of Macroeconomic Trends on Business

Changing macroeconomic factors, including inflation, interest rates, student loan repayment resumption, as well as world events, wars and domestic and international conflicts, affect overall consumer confidence with respect to current and future economic conditions and continue to impact our sales as discretionary consumer spending levels and shopping behavior fluctuate with these factors. We continue to respond to these factors, as needed, by taking appropriate pricing, promotional and other actions to stimulate customer demand. These factors may continue to have an impact on our business, results of operations, our growth and financial condition.

Liquidity

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the thirteen and twenty-six weeks ended June 30, 2024, the Company incurred net losses of $10.8 million and $16.5 million, respectively.

In November 2021 the Company entered into a Credit Agreement (the “2021 Credit Agreement”) with Bank of America to provide a Revolving Facility (the “2021 Revolving Facility”) that provided for borrowings up to $50.0 million. The 2021 Credit Agreement contained various financial covenants and had a maturity date of November 15, 2024 as described in Note 5, *Debt*. As of June 30, 2024, the Company had total cash and cash equivalents of $1.8 million and no amounts due under the 2021 Revolving Facility.

On July 22, 2024, the Company entered into an amendment to the 2021 Credit Agreement (the “2024 Amended Credit Agreement”) as described in Note 13, *Subsequent Events*.

The Company continues to take certain cash conservation measures, including adjustments to marketing and other variable and capital spend to meet its obligations as needed. As the ability to raise additional debt financing is outside of management’s control, we cannot conclude that management’s plans will be effectively implemented within twelve months from the date the condensed consolidated financial statements are issued. Accordingly, we have concluded that these plans do not alleviate substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements do not reflect any adjustments relating to the outcome of this uncertainty.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

2. Significant Accounting Policies

Basis of Presentation and Fiscal Year

The Company's fiscal year consists of a 52-week or 53-week period ending on the Sunday nearest December 31. The fiscal years ending December 29, 2024 and ended December 31, 2023 consist of 52-weeks.

The condensed consolidated financial statements and accompanying notes include the accounts of the Company and its wholly owned subsidiaries, after elimination of all intercompany balances and transactions. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the Unites States of America ("GAAP") and the requirements of the SEC for interim reporting. As permitted under these rules, certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. The interim condensed consolidated financial statements are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of June 30, 2024 and its results of operations for the thirteen and twenty-six weeks ended June 30, 2024 and July 2, 2023 and its cash flows for the twenty-six weeks ended June 30, 2024 and July 2, 2023. The results of operations for the twenty-six weeks ended June 30, 2024 are not necessarily indicative of the results to be expected for the fiscal year ending December 29, 2024 or for any other future annual or interim period.

The condensed consolidated balance sheet as of December 31, 2023 was derived from the Company's audited consolidated financial statements, which are included in the Company's Annual Report on Form 10-K as filed with the SEC on March 6, 2024.

Significant Accounting Policies

The significant accounting policies used in preparation of these condensed consolidated financial statements are consistent with those discussed in Note 2 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, except as noted below and within the "Recently Issued Accounting Pronouncements" section.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The significant estimates and assumptions made by management relate to sales return reserves and related assets for recovery, lease right-of-use assets and related lease liabilities, income tax valuation allowance and fair value of equity awards. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods. As future events and their effects cannot be determined with precision, actual results could materially differ from those estimates and assumptions.

Concentration of Credit Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents and restricted cash. Such amounts may exceed federally insured limits. The Company reduces credit risk by depositing its cash with a major credit-worthy financial institution within the United States. To date, the Company has not experienced any losses on its cash deposits. As of June 30, 2024 and December 31, 2023, no single customer represented greater than 10% of the Company’s accounts receivable balance. No customer accounted for greater than 10% of the Company’s net revenue during the thirteen and twenty-six weeks ended June 30, 2024 and July 2, 2023.

Leases

Contracts that have been determined to convey the right to use an identified asset are evaluated for classification as an operating or finance lease. For the Company’s operating and finance leases, the Company records a lease liability based on the present value of the lease payments at lease inception. The present value of lease payments is determined by using the interest rate implicit in the lease, if that rate is readily determinable; otherwise, the Company uses its incremental borrowing rate (“IBR”). The determination of the IBR requires judgment and is primarily based on publicly-available information for companies within similar industries and with similar credit profiles. The Company adjusts the rate for the impact of collateralization, the lease term and other specific terms included in each lease arrangement. The IBR is determined at the lease commencement and is subsequently reassessed upon a modification to the lease arrangement. The right-of-use asset is recorded based on the corresponding lease liability at lease inception, adjusted for payments made to the lessor at or before the commencement date, initial direct costs incurred and any tenant incentives allowed for under the lease. The Company does not include optional renewal terms or early termination provisions unless the Company is reasonably certain such options would be exercised at the inception of the lease. Lease right-of-use assets, current portion of lease liabilities, and lease liabilities, net of current portion are included on the condensed consolidated balance sheets.

Fixed lease expense for operating leases is recognized on a straight-line basis, unless the right-of-use assets have been impaired, over the reasonably assured lease term based on the total lease payments and is included in operating expenses in the condensed consolidated statements of operations and comprehensive loss. Fixed and variable lease expense on operating leases is recognized within operating expenses in the condensed consolidated statements of operations and comprehensive loss. Finance lease expenses are recognized on a straight-line basis. Fixed and variable expenses are captured within interest expense and depreciation expense, which has components within general and administrative expenses and cost of revenue. The Company’s non-lease components are primarily related to maintenance, insurance and taxes, which varies based on future outcomes and is thus recognized in lease expense when incurred.

Revenue Recognition

The Company generates revenue primarily from the sale of merchandise products directly to end customers. The sale of products is a distinct performance obligation, and revenue is recognized at a point in time when control of the promised product is transferred to customers, which the Company determined occurs upon shipment based on its evaluation of the related shipping terms. Revenue is recognized in an amount that reflects the transaction price consideration that the Company expects to receive in exchange for those products. The Company’s payment terms are typically at the point of sale for merchandise product sales.

The Company elected to exclude from revenue taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and concurrent with revenue-producing activities. The Company has elected to apply the practical expedient, relative to e-commerce sales, which allows an entity to account for shipping and handling as fulfillment activities, and not a separate performance obligation. Accordingly, the Company recognizes revenue for only one performance obligation, the sale of the product, at shipping point (when the customer gains control). Shipping and handling costs associated with outbound freight are accounted for as fulfillment costs and are included in cost of goods sold. The Company has elected to apply the practical expedient to expense costs as incurred for incremental costs to obtain a contract when the amortization period would have been one year or less.

Revenue from merchandise product sales is reported net of sales returns, which includes an estimate of future returns based on historical return rates, with a corresponding reduction to cost of sales. There is judgment in utilizing historical trends for estimating future returns. The Company’s refund liability for sales returns is included in the returns reserve on its condensed consolidated balance sheets and represents the expected value of the refund that will be due to the Company’s customers. The Company also has corresponding assets for recovery that represent the expected net realizable value of the merchandise inventory to be returned.

The Company sells stored-value gift cards to customers and offers merchandise credit stored-value cards for certain returns. Such stored-value cards do not have an expiration date. The Company recognizes revenue from stored-value cards when the card is redeemed by the customer. The Company has determined that sufficient evidence exists to support an estimate for stored-value card breakage. Subject to requirements to remit balances to governmental agencies, breakage is recognized as revenue in proportion to the pattern of rights exercised by the customer, which is substantially within thirty-six months from the date of issuance. The amount of breakage recognized in revenue during the thirteen and twenty-six weeks ended June 30, 2024 and July 2, 2023 was not material.

The Company has two types of contractual liabilities: (i) cash collections from its customers prior to delivery of products purchased (“deferred revenue”), which are initially recorded within accrued expenses and recognized as revenue when the products are shipped, (ii) unredeemed gift cards and online store credits, which are initially recorded as a stored-value card liability and are recognized as revenue in the period they are redeemed.

The following table summarizes the significant changes in the contract liabilities balances included in accrued expenses and other current liabilities during the thirteen and twenty-six weeks ended June 30, 2024 and July 2, 2023 (in thousands):

	Deferred Revenue	Stored-Value Cards
Balance as of December 31, 2023	$ 50	$ 13,142
Revenue recognized that was included in contract liability balance at the beginning of the period	(50)	(1,549)
Increase due to cash received, excluding amounts recognized as revenue during the period	230	1,616
Balance as of March 31, 2024	230	13,209
Revenue recognized that was included in contract liability balance at the beginning of the period	(230)	(1,042)
Increase due to cash received, excluding amounts recognized as revenue during the period	89	2,976
Balance as of June 30, 2024	89	15,143

	Deferred Revenue	Stored-Value Cards
Balance as of January 1, 2023	$ 69	$ 10,828
Revenue recognized that was included in contract liability balance at the beginning of the period	(69)	(1,720)
Increase due to cash received, excluding amounts recognized as revenue during the period	122	2,022
Balance as of April 2, 2023	122	11,130
Revenue recognized that was included in contract liability balance at the beginning of the period	(122)	(1,129)
Increase due to cash received, excluding amounts recognized as revenue during the period	98	2,355
Balance as of July 2, 2023	98	12,356

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Selling and Marketing Expenses

Advertising costs included in selling and marketing expenses were $20.0 million and $19.5 million for the thirteen weeks ended June 30, 2024 and July 2, 2023, respectively, and $33.1 million and $34.5 million for the twenty-six weeks ended June 30, 2024 and July 2, 2023, respectively.

Net Loss Per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is computed using net loss attributable to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted net loss per share attributable to common stockholders represents net loss attributable to common stockholders divided by the weighted average number of common shares outstanding during the period, including the effects of any dilutive securities outstanding. Due to the net loss for all periods presented, no potentially dilutive securities had an impact on diluted loss per share for any period.

The following securities were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been anti-dilutive (on an as-converted basis):

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Stock options	161,397	161,397	161,397	161,397
Unvested restricted stock	9,140	57,287	9,140	57,287
Unvested RSUs	4,327,969	4,033,576	4,327,969	4,033,576
PSUs	2,161,571	1,811,571	2,161,571	1,811,571
ESPP shares	103,766	137,847	103,766	137,847
2023 Bonus Plan	—	210,381	—	210,381
Total	6,763,843	6,412,059	6,763,843	6,412,059

2024 Stock Repurchase Program

On May 3, 2024, the Company's Board of Directors authorized a stock repurchase program to repurchase up to $2.5 million of our common stock (the "2024 Repurchase Program"). The actual timing, number, and value of shares repurchased in the future will be determined by the Company in its discretion and will depend on a number of factors, including market conditions, applicable legal requirements, our capital needs, and whether there is a better alternative use of capital.

As of June 30, 2024, $2.4 million remained available under the 2024 Repurchase Program authorization. The table below summarizes the share repurchase activity during the thirteen and twenty-six weeks ended June 30, 2024 under our 2024 Repurchase Program:

Period	Total Number of Shares Purchased (1)	Weighted Average Price Paid Per Share	Aggregate Purchase Price (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan
Thirteen and twenty-six weeks ended June 30, 2024	47,850	$ 1.82	$ 87,243	2,412,757

(1) The shares of common stock were purchased in open market transactions pursuant to a 10b5-1 purchase plan entered into by the Company.
(2) Amount includes broker commissions

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

Goodwill and Intangible Assets

The Company tests for goodwill impairment at the reporting unit level on the first day of the fourth quarter of each year and between annual tests if significant indicators exist that would suggest the Company's goodwill and intangible assets could potentially be impaired. The Company monitors changing business conditions as well as industry and economic factors, among others, for events which could trigger the need for an interim impairment analysis. The Company concluded that a sustained decline in its stock price coupled with continuing net losses, were significant enough factors to warrant an impairment analysis of its goodwill, tradename and intangible assets (which constitutes the Company's sole reporting unit) during the thirteen weeks ended March 31, 2024.

Accordingly, the Company performed an interim quantitative assessment as of March 31, 2024 using a market-based quantitative assessment utilizing a combination of the (i) the guideline public company method applying revenue and EBITDA multiples of similar companies and (ii) the discounted cash flow method. The fair value determination used in the impairment assessment requires estimates of the fair values based on present value or other valuation techniques or a combination thereof, necessitating subjective judgments and assumptions by management. These estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change. The results from the quantitative assessment indicated that the fair value exceeded the carrying value by approximately 17%.

As of June 30, 2024, the Company performed a qualitative assessment of its goodwill, tradename and intangible assets and determined that it is more likely than not that the fair value of its reporting unit exceeds the carrying value of the reporting unit. As a result, there was no impairment relating to the goodwill, tradename and intangible assets as of June 30, 2024.

Recently Adopted Accounting Pronouncements

The Company is an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, these condensed consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates.

Recently Issued Accounting Pronouncements

In November 2023, FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which updates reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses and information used to assess segment performance. ASU 2023-07 is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments should be applied retrospectively to all prior periods presented in the financial statements. We are currently evaluating the effects of this pronouncement on our consolidated financial statements and related disclosures.

In December 2023, FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures,* which amends existing income tax disclosure guidance, primarily requiring more detailed disclosure for income taxes paid and the effective tax rate reconciliation. ASU 2023-09 is effective for annual reporting periods beginning after December 15, 2024, with early adoption permitted and can be applied on either a prospective or retroactive basis. We are currently evaluating this pronouncement to determine its impact on our income tax disclosures.

In March 2024, FASB issued ASU 2024-01, *Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards,* which is intended to reduce complexity in determining whether a profits interest award is subject to the guidance in Topic 718 and existing diversity in practice. ASU 2024-01 is effective for annual reporting periods beginning after December 15, 2024, with early adoption permitted and can be applied on either a prospective or retroactive basis. We are currently evaluating this pronouncement to determine its impact on our stock compensation.

In March 2024, FASB issued ASU 2024-02, *Codification Improvements—Amendments to Remove References to the Concepts Statements,* which is intended to simplify the Codification and draw a distinction between authoritative and nonauthoritative literature. ASU 2024-02 is effective for annual reporting periods beginning after December 15, 2024, with early adoption permitted and can be applied on either a prospective or retroactive basis. We are currently evaluating this pronouncement to determine its impact on our stock compensation.

3. Fair Value Measurements

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts payable, accrued expenses and revolving line of credit. As of June 30, 2024 and December 31, 2023, the carrying values of cash and cash equivalents, restricted cash, accounts payable and accrued expenses and other current liabilities approximate fair value due to their short-term maturities. The fair value of the Company's 2021 Revolving Facility that provides for borrowings up to $50.0 million (see Note 5, *Debt*) approximates its carrying value as the stated interest rates reset daily at the daily secured overnight financing rate ("SOFR") plus an applicable margin and, as such, approximate market rates currently available to the Company. The Company does not have any financial instruments that were determined to be Level 3.

4. Balance Sheet Components

Property and Equipment, net

Property and equipment, net consisted of the following (in thousands):

	Estimated Useful Lives in Years	June 30, 2024	December 31, 2023
Leasehold improvements	3 – 9	$ 4,888	$ 4,314
Equipment	3 – 7	3,773	3,053
Furniture and fixtures	3 – 7	2,019	2,151
Construction in progress		49	688
Total property and equipment		10,729	10,206
Less: accumulated depreciation and amortization		(6,036)	(5,494)
Property and equipment, net		$ 4,693	$ 4,712

Depreciation and amortization of property and equipment for the thirteen weeks ended June 30, 2024 and July 2, 2023 was $0.8 million and $0.7 million, respectively, and for the twenty-six weeks ended June 30, 2024 and July 2, 2023, was $1.6 million and $1.4 million, respectively.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	June 30, 2024	December 31, 2023
Accrued compensation and benefits	$ 4,928	$ 5,057
Accrued marketing	7,880	5,002
Accrued inventory	8,746	4,151
Accrued freight	1,727	1,940
Other	4,383	2,193
Accrued expenses and other current liabilities	$ 27,664	$ 18,343

5. Debt

2021 Credit Agreement and 2021 Revolving Facility

On November 15, 2021, we entered into the 2021 Credit Agreement with Bank of America to provide the 2021 Revolving Facility that provided for borrowings up to $50.0 million. During the term of the 2021 Credit Agreement, the Company could have increased the aggregate amount of the 2021 Revolving Facility up to an additional $25.0 million (for maximum aggregate lender commitments of up to $75.0 million), subject to the satisfaction of certain conditions under the 2021 Credit Agreement, including obtaining the consent of the administrative agent and an increased commitment from existing or new lenders. In addition, the 2021 Credit Agreement could have been used to issue letters of credit up to $7.5 million. During the twenty-six weeks ended June 30, 2024, the Company borrowed $20.0 million under the 2021 Revolving Facility and repaid $28.0 million of the outstanding balance. The 2021 Revolving Facility had a maturity date of November 15, 2024. On July 22, 2024, we entered into the 2024 Amended Credit Agreement as described in Note 13, *Subsequent Events.* As of June 30, 2024, the Company had $0.3 million outstanding under the Letter of Credit. Subject to the satisfaction of certain conditions under the 2021 Credit Agreement, as of June 30, 2024, the Company had $49.7 million available for borrowing under the 2021 Revolving Facility and $7.2 million available to issue under letters of credit.

All borrowings under the 2021 Credit Agreement accrued interest at a rate equal to, at the Company's option, either (x) the term daily SOFR, plus the applicable SOFR adjustment plus a margin of 1.75% per annum or (y) the base rate plus a margin of 0.75% (with the base rate being the highest of the federal funds rate plus 0.50%, the prime rate and term SOFR for a period of one month plus 1.00%). The 2021 Revolving Facility contained a financial maintenance covenant requiring a maximum total leverage ratio of no more than 2.50:1.00, stepping down to 2.00:1.00 after 18 months. Additionally, a commitment fee of 37.5 basis points was assessed on unused commitments under the 2021 Revolving Facility, taking into account the sum of outstanding borrowings and letter of credit obligations. As of June 30, 2024, the interest rate for the 2021 Revolving Facility was 7.2%, and during the thirteen and twenty-six weeks ended June 30, 2024, the weighted average interest rate for the 2021 Revolving Facility was 10.1% and 8.8%, respectively.

Amounts borrowed under the 2021 Credit Agreement were collateralized by all assets of the Company. The 2021 Credit Agreement contained various financial and non-financial covenants for reporting, protecting and obtaining adequate insurance coverage for assets collateralized and for coverage of business operations, and complying with requirements, including the payment of all necessary taxes and fees for all federal, state and local government entities. Immediately upon the occurrence and during the continuance of an event of default, including the noncompliance with the above covenants, the lender could have increased the interest rate per annum by 2.0% above the rate that would be otherwise applicable. As of June 30, 2024, management determined that the Company was in compliance with all financial covenants.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Debt Discounts and Issuance Costs

Debt discounts and issuance costs are deferred and amortized over the life of the related loan using the effective interest method. The associated expense is included in interest expense in the consolidated statements of operations and comprehensive loss. Debt issuance costs related to the 2021 Revolving Facility, are included in other non-current assets in the consolidated balance sheets. As of June 30, 2024 and December 31, 2023, unamortized debt issuance costs recorded within other non-current assets were $0.1 million and $0.1 million, respectively.

6. Leases

On January 3, 2022, the Company adopted ASC 842 using the alternative transition method and applied the standard only to leases that existed at that date. Under the alternative transition method, the Company did need to restate the comparative periods in transition and will continue to present financial information and disclosures for periods before January 3, 2022, in accordance with FASB ASC 840, *Leases*. The Company elected the practical expedient package, which among other practical expedients, includes the option to retain the historical classification of leases entered into prior to January 3, 2022, and allows entities to recognize lease payments on a straight-line basis over the lease term for leases with a term of 12 months or less. The Company also elected the practical expedient to combine lease and non-lease components.

The Company is a lessee under various lease agreements. The determination of whether an arrangement contains a lease and the lease classification is made at lease commencement (date on which a lessor makes an underlying asset available for use by the lessee). At lease commencement, the Company also measures and recognizes a right-of-use asset, representing the Company's right to use the underlying asset, and a lease liability, representing the Company's obligation to make lease payments under the terms of the arrangement. The lease term is defined as the noncancelable portion of the lease term plus any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised. For the purposes of recognizing right-of-use assets and lease liabilities associated with the Company's leases, the Company has elected the practical expedient of not recognizing a right-of-use asset or lease liability for short-term leases, which are leases with a term of 12 months or less. The Company has multiple finance leases and operating leases that are combined and included in the lease right-of-use assets, lease liabilities, current, and lease liabilities, noncurrent on the Company's condensed consolidated balance sheets.

The Company primarily leases its distribution facilities, corporate offices and retail stores under operating lease agreements expiring on various dates through December 2031, most of which contain options to extend. In addition to payment of base rent, the Company is also required to pay property taxes, insurance, and common area maintenance expenses. The Company records lease expense on a straight-line basis over the term of the lease. The Company had immaterial remaining obligations for the base rent related to the short-term leases as of June 30, 2024 and July 2, 2023.

The Company also leases equipment under finance lease agreements expiring on various dates through April 2029.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

As of June 30, 2024, the future minimum lease payments for the Company's operating and finance leases for each of the fiscal years were as follows (in thousands):

Fiscal Year:	Operating Leases	Finance Leases	Total
2024 (remaining six months)	$ 2,839	$ 673	$ 3,512
2025	6,264	1,512	7,776
2026	4,970	259	5,229
2027	5,138	82	5,220
2028	5,252	13	5,265
Thereafter	6,380	2	6,382
Total undiscounted lease payment	30,843	2,541	33,384
Present value adjustment	(5,159)	(103)	(5,262)
Total lease liabilities	25,684	2,438	28,122
Less: lease liabilities, current	(4,221)	(1,441)	(5,662)
Lease liabilities, noncurrent	$ 21,463	$ 997	$ 22,460

Under the terms of the remaining lease agreements, the Company is also responsible for certain variable lease payments that are not included in the measurement of the lease liability, including non-lease components such as common area maintenance fees, taxes, and insurance.

7. Commitments and Contingencies

Litigation and Other

From time to time, the Company may be a party to litigation and subject to claims, including employment claims, wage and hour claims, intellectual property claims, privacy claims, contractual and commercial disputes and other matters that arise in the ordinary course of our business. The Company accrues a liability when management believes information available prior to the issuance of the condensed consolidated financial statements indicates it is probable a loss has been incurred as of the date of the condensed consolidated financial statements and the amount of loss can be reasonably estimated. The Company adjusts its accruals to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Legal costs are expensed as incurred.

As of June 30, 2024, the Company has received a cease and desist letter alleging intellectual property infringement. This matter has not proceeded to litigation as of the date of this report. In the thirteen weeks ended June 30, 2024, the Company recorded a loss contingency accrual of $1.7 million for estimated losses that we expect to incur in connection with this claim, and a related anticipated and contingent insurance receivable of $1.3 million. These accruals are based on currently available information and may change as new information becomes available or circumstances change.

During the normal course of business, the Company may be a party to claims that may not be covered wholly or partially by insurance. While the ultimate liability, if any, arising from these claims cannot be predicted with certainty, other than as discussed above, management does not believe that the resolution of any such claims would have a material adverse effect on the Company's condensed consolidated financial statements. As of June 30, 2024, other than as discussed above, the Company was not aware of any currently pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on its condensed consolidated financial statements.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Indemnification

The Company also maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify the Company's directors and officers. To date, the Company has not incurred any material costs and has not accrued any liabilities in the condensed consolidated financial statements as a result of these provisions.

8. Preferred Stock

Pursuant to the Company's amended and restated certificate of incorporation, the Company is authorized to issue 10,000,000 shares of preferred stock having a par value of $0.001 per share. The Company's Board of Directors has the authority to issue preferred stock and to determine the rights, preferences, privileges, and restrictions, including voting rights, of those shares. As of June 30, 2024 and December 31, 2023, no shares of preferred stock were issued and outstanding.

9. Common Stock

The Company has authorized the issuance of 250,000,000 shares of common stock, $0.001 par value ("common stock") as of June 30, 2024 and December 31, 2023, respectively. Holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders of the Company. Subject to the preferences that may be applicable to any outstanding share of preferred stock, the holders of common stock are entitled to receive dividends, if any, as may be declared by the Board of Directors. No dividends have been declared to date. As of June 30, 2024, the Company has reserved 161,397 shares of common stock for issuance upon the exercise of stock options, and 1,345,832 shares of common stock available for future issuance under the Lulu's Fashion Lounge Holdings, Inc. Omnibus Equity Plan (the "Omnibus Equity Plan") and 1,368,288 shares of common stock available for future issuance under the 2021 Employee Stock Purchase Plan (the "ESPP"), respectively. Both equity plans are further described in Note 10, Equity-Based Compensation.

10. Equity-Based Compensation

Omnibus Equity Plan and Employee Stock Purchase Plan

In connection with the closing of the IPO, the Company adopted the Omnibus Equity Plan and ESPP.

Under the Omnibus Equity Plan, incentive awards may be granted to employees, directors, and consultants of the Company. The Company initially reserved 3,719,000 shares of common stock for future issuance under the Omnibus Equity Plan, including any shares subject to awards under the 2021 Equity Incentive Plan (the "2021 Equity Plan") that are forfeited or lapse unexercised. The number of shares reserved for issuance under the Omnibus Equity Plan will automatically increase on the first day of each fiscal year, starting in 2022 and continuing through 2031, by a number of shares equal to (a) 4% of the total number of shares of the Company's common stock outstanding on the last day of the immediately preceding fiscal year or (b) such smaller number of shares as determined by the Company's Board of Directors.

Under the ESPP, the Company initially reserved 743,803 shares of common stock for future issuance. The number of shares of common stock reserved for issuance will automatically increase on the first day of each fiscal year beginning in 2022 and ending in 2031, by a number of shares equal to (a) 1% of the total number of shares of the Company's common stock outstanding on the last day of the immediately preceding fiscal year or (b) such smaller number of shares as determined by the Company's Board of Directors.

On April 1, 2022, the Company filed a Registration Statement on Form S-8 with the SEC for the purpose of registering an additional 5,921,056 shares of the Company's common stock, inclusive of 1,536,845 and 384,211 shares associated with automatic increases that occurred on January 3, 2022 under the Omnibus Equity Plan and ESPP, respectively. This

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

registration also included 3,200,000 and 800,000 shares for the Omnibus Equity Plan and the ESPP, respectively, representing two years' worth of estimated future automatic increases in availability for these plans.

On March 8, 2023, the Company's Board of Directors approved the Fiscal 2023 Bonus Plan (the "2023 Bonus Plan") that granted RSUs to eligible employees on April 1, 2024, in lieu of a cash bonus. On April 1, 2024, 95,912 RSUs were awarded to eligible employees under the 2023 Bonus Plan, and all such RSUs vested fully on that date subject to any forfeitures.

On June 29, 2023, the Company filed a Registration Statement on Form S-8 with the SEC for the purpose of registering an additional 2,000,000 shares of the Company's common stock under the Omnibus Equity Plan corresponding to the increase in shares approved by stockholders at the 2023 annual meeting of stockholders.

As of June 30, 2024, the Company had 1,345,832 and 1,368,288 shares available for issuance under the Omnibus Equity Plan and ESPP, respectively. The compensation committee of the Company's Board of Directors (the "Compensation Committee") administers the Omnibus Equity Plan and determines to whom awards will be granted, the exercise price of any options, the vesting schedule and the other terms and conditions of the awards granted under the Omnibus Equity Plan. The Compensation Committee may or may not issue the full number of shares that are reserved for issuance.

The Company's initial ESPP offering period commenced on August 26, 2022. The ESPP consists of consecutive, overlapping 12-month offering periods that begin on each August 26 and February 26 during the term of the ESPP, and end on each August 25 and February 25 occurring 12 months later, as applicable. Each offering period is comprised of two consecutive six-month purchase periods that begin on each August 26 and February 26 within each offering period and end on each February 25 and August 25, respectively, thereafter. The duration and timing of offering periods and purchase periods may be changed by the Company's Board of Directors or Compensation Committee at any time. The ESPP allows participants to purchase shares of the Company's common stock at a 15 percent discount from the lower of the Company's stock price on (i) the first day of the offering period or on (ii) the last day of the purchase period and includes a rollover mechanism for the purchase price if the stock price on the purchase date is less than the stock price on the offering date. The ESPP also allows participants to reduce their percentage election once during the offering period, but they cannot increase their election until the next offering period.

The Company recognizes equity-based compensation expense related to shares issued pursuant to the ESPP on a graded vesting approach over each offering period. For the thirteen and twenty-six weeks ended June 30, 2024, equity-based compensation expense related to our ESPP was immaterial. During the thirteen weeks ended March 31, 2024 and April 2, 2023, the Company issued 52,043 shares and 47,502 shares, respectively, pursuant to the ESPP six-month purchase period ended February 26, 2024 and February 25, 2023, respectively.

The Company used the Black-Scholes model to estimate the fair value of the purchase rights under the ESPP. For the thirteen and twenty-six weeks ended June 30, 2024, the Company utilized the following assumptions:

Expected term (in years)		0.50 to 1.00
Expected volatility		81.95 to 91.30 %
Risk-free interest rate		5.03 to 5.34 %
Dividend yield		-
Weighted average fair value per share of ESPP awards granted	$	0.65 to 0.90

2021 Equity Plan

During April 2021, the Company's Board of Directors adopted the 2021 Equity Plan. The 2021 Equity Plan provided for the issuance of incentive stock options, restricted stock, restricted stock units and other stock-based and cash-based awards to the Company's employees, directors, and consultants. The maximum aggregate number of shares reserved for issuance under the 2021 Equity Plan was 925,000 shares. The options outstanding under the 2021 Equity Plan expire ten years from the date of grant. The Company issues new shares of common stock to satisfy stock option exercises. In connection with the closing of the IPO, no further awards will be granted under the 2021 Equity Plan.

Former CEO Stock Options and Special Compensation Awards

In April 2021, the Company entered into an Employment Agreement (the "McCreight IPO Employment Agreement") with the former CEO, David McCreight, and granted stock options under the 2021 Equity Plan to purchase 322,793 shares of common stock with an exercise price of $11.35 per share, which vest based on service and performance conditions. 275,133 of these stock options have only service vesting conditions, and 47,660 of these stock options have both service and performance vesting conditions. In addition, a portion of these stock options were subject to accelerated vesting conditions upon the occurrence of certain future events, which were satisfied upon the closing of the IPO. As previously disclosed on a Form 8-K filed on February 13, 2023 (the "February 13 8-K"), Mr. McCreight voluntarily forfeited 161,396 unvested stock options of the Company. During the thirteen weeks ended April 2, 2023, the forfeiture of 161,396 unvested stock options resulted in immediate acceleration of the remaining $1.2 million of compensation expense which was recorded to general and administrative expense. As previously disclosed in the February 13 8-K, the Company and David McCreight also entered into the First Amendment to Lulu's Fashion Lounge Holdings, Inc. 2021 Equity Incentive Plan Stock Option Agreement that extends the post-termination exercise period of 161,397 vested stock options from 90 days to three (3) years from a termination of service other than for cause, death or disability.

Under the McCreight IPO Employment Agreement and subject to ongoing employment, and in light of the closing of the IPO, the former CEO received two bonuses, each of which were settled in 208,914 fully-vested shares of the Company's common stock. The Company recognized the final $0.4 million of equity-based compensation expense related to this award in the thirteen weeks ended April 2, 2023.

Stock Options

A summary of stock option activity is as follows (in thousands, except per share amounts and years):

	Options Outstanding	Weighted-Average Exercise Price per Option	Weighted-Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Balance as of December 31, 2023	161,397	$ 11.35	7.29	
Granted	—	—	—	
Forfeited	—	—	—	
Outstanding as of June 30, 2024	161,397	$ 11.35	6.79	
Exercisable as of June 30, 2024	161,397	$ 11.35	6.79	$ —
Vested and expected to vest as of June 30, 2024	161,397	$ 11.35	6.79	$ —

Restricted Stock and Restricted Stock Units ("RSUs")

Immediately before the completion of the IPO, the LP was liquidated and the unit holders of the LP received shares of the Company's common stock in exchange for their units of the LP. The Class P unit holders received 1,964,103 shares of common stock, comprised of 1,536,304 shares of vested common stock and 427,799 shares of unvested restricted stock. Any such shares of restricted stock received in respect of unvested Class P units of the LP are subject to vesting and a risk of forfeiture to the same extent as the corresponding Class P units. The Company recorded equity-based compensation expense of $0.1 million and $0.2 million during the thirteen and twenty-six weeks ended June 30, 2024, respectively, and $0.2 million and $0.4 million during the thirteen and twenty-six weeks ended July 2, 2023, respectively, related to the exchanged restricted stock. As of June 30, 2024, the unrecognized equity-based compensation expense for all restricted stock is $0.1 million and will be recognized over a weighted-average period of 0.33 years.

The following table summarizes the rollforward of unvested restricted stock during the twenty-six weeks ended June 30, 2024:

	Unvested Restricted Stock	Weighted-Average Fair Value per Share
Balance at December 31, 2023	23,379	$ 4.54
Restricted stock granted	—	—
Restricted stock vested	(13,204)	4.41
Restricted stock forfeited	(1,035)	4.54
Balance at June 30, 2024	9,140	$ 4.17

During the thirteen weeks ended March 31, 2024, the Company entered into a second amendment to the employment agreement with Mark Vos, the President and Chief Information Officer (the "2024 President & CIO Employment Agreement"), under which 660,000 RSUs were initially granted, subject to various vesting schedules as set forth in the 2024 President & CIO Employment Agreement. On February 16, 2024, Tiffany Smith, the Chief Financial Officer received 175,000 RSUs pursuant to the applicable RSU Award Agreement, which vest over a three-year service period. On February 16, 2024, Laura Deady, the Chief Merchandising Officer, received 152,273 RSUs pursuant to her employment agreement entered into in December 2023 ("2024 CMO Employment Agreement") and the applicable RSU Award Agreement, which vest over a three-year service period.

During the thirteen and twenty-six weeks ended June 30, 2024, the Company granted 37,274 and 1,951,345 RSUs, respectively, to certain executives (inclusive of the aforementioned RSU grants to Mr. Vos, Ms. Deady and Ms. Smith), and employees which are subject to various vesting schedules as set forth in the applicable employment agreement or RSU Award Agreements. During the thirteen and twenty-six weeks ended June 30, 2024, the Company granted 423,118 and 449,734 RSUs, respectively, to certain directors which vested immediately or pursuant to the Company's Non-Employee Director Compensation Program. The Company recognized equity-based compensation expense of $1.7 million and $3.3 million during the thirteen and twenty-six weeks ended June 30, 2024, respectively, and $3.2 million and $6.0 million during the thirteen and twenty-six weeks ended July 2, 2023, respectively, related to the RSUs. As of June 30, 2024, the unrecognized equity-based compensation expense is $10.5 million and will be recognized over a weighted-average period of 2.05 years.

The following table summarizes the roll forward of unvested RSUs during the twenty-six weeks ended June 30, 2024:

	Unvested RSUs	Weighted-Average Fair Value per Share
Balance at December 31, 2023	3,568,406	$ 3.14
RSUs granted	2,401,079	1.99
RSUs vested	(1,559,157)	2.86
RSUs forfeited	(82,359)	2.64
Balance at June 30, 2024	4,327,969	$ 2.61

LULU'S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

Performance Stock Units ("PSUs")

Under Crystal Landsem's 2023 employment agreement ("the CEO Employment Agreement"), Ms. Landsem received a grant of 1,811,571 PSUs on March 5, 2023 which vest in three equal annual installments of 603,857 PSUs subject to the achievement of trailing ten day volume-weighted average price targets of the Company's common stock and her continued employment on the vesting dates. Under the 2024 President & CIO Employment Agreement, Mr. Vos received a grant of 300,000 PSUs on January 9, 2024 which vest subject to the achievement of trailing ten day volume-weighted average price targets of the Company's common stock and his continued employment on the vesting dates. Under the 2024 CMO Employment Agreement, Ms. Deady received a grant of 50,000 PSUs on February 16, 2024, which vest subject to the achievement of specified Company trailing twelve month net revenue growth targets and her continued employment on the vesting dates.

The Company recognized equity-based compensation expense of $0.4 million and $1.0 million during the thirteen and twenty-six weeks ended June 30, 2024, and $0.7 million and $0.9 million during the thirteen and twenty-six weeks ended July 2, 2023, related to the PSUs. As of June 30, 2024, the unrecognized equity-based compensation expense is $1.7 million for the financial milestones that were considered probable of achievement, which will be recognized over a weighted-average period of 1.49 years.

The following table summarizes the rollforward of unvested PSUs during the twenty-six weeks ended June 30, 2024:

	Unvested PSUs	Weighted-Average Fair Value per Share
Balance at December 31, 2023	1,811,571	$ 2.65
PSUs granted	350,000	1.81
PSUs vested	—	—
PSUs forfeited	—	—
Balance at June 30, 2024	2,161,571	$ 2.51

11. Income Taxes

All of the Company's loss before income taxes is from the United States. The following table presents the components of the provision for income taxes (in thousands):

	Thirteen Weeks Ended	
	June 30, 2024	July 2, 2023
Loss before provision for income taxes	$ (4,465)	$ (1,723)
Provision for income taxes	(6,331)	(874)
Effective tax rate	141.8 %	50.7 %

	Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023
Loss provision for income taxes	$ (10,780)	$ (8,049)
Provision for income taxes	(5,752)	(166)
Effective tax rate	53.4 %	2.1 %

LULU’S FASHION LOUNGE HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements
(unaudited)

The Company’s provision for income taxes during interim reporting periods has historically been calculated by applying an estimate of the annual effective tax rate for the full year to “ordinary” income or loss (pre-tax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period.

The Company’s pre-tax loss for the period ended June 30, 2024 relative to the Company’s projected pre-tax income for fiscal 2024 yielded an annual effective tax rate, which was deemed to be appropriate or meaningful. Based on this fact, the Company determined that the historical estimated annual effective tax rate method would provide a reliable estimate and was used for calculating the interim provision for the period ended June 30, 2024.

For the thirteen and twenty-six weeks ended June 30, 2024, the Company's effective tax rate differs from the federal income tax rate of 21% primarily due to the establishment of valuation allowance as the Company could not provide sufficient positive evidence that the deferred taxes will be more-likely-than-not realized in the future. For the thirteen and twenty-six weeks ended July 2, 2023, the Company's effective tax rate differs from the federal income tax rate of 21% primarily due to non-deductible executive compensation and non-deductible equity-based compensation expense.

The Company regularly assesses the realizability of deferred tax assets and records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In assessing the realizability of our deferred tax assets, we weigh all available positive and negative evidence. This evidence includes, but is not limited to, historical earnings, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Due to the weight of objectively verifiable negative evidence, the Company established a valuation allowance of $5.4 million during the thirteen weeks ended June 30, 2024. This was comprised of a valuation allowance of $5.7 million for the net deferred taxes as of December 31, 2023 and an adjustment of $0.3 million for the twenty-six week period through June 30, 2024. The significant piece of objectively verifiable negative evidence evaluated was the recent cumulative losses. Our ability to use our deferred tax assets depends on the amount of taxable income in future periods.

12. Related Party Transactions

Significant Shareholders

The Company identified three shareholders with aggregate ownership interest in the Company greater than 10%. The Company reviewed the respective investment portfolio holdings of these shareholders and identified investments in other entities that the Company engages in business with. All of these business relationships were obtained without the support of these shareholders, and as such, are believed to be at terms comparable to those that would be obtained through arm’s length dealings with unrelated third parties.

13. Subsequent Events

2024 Amended Credit Agreement

On July 22, 2024, the Company entered into the 2024 Amended Credit Agreement. The 2024 Amended Credit Agreement provides for a nine-month extension of the maturity date to August 15, 2025.

The 2024 Amended Credit Agreement reduced the 2021 Revolving Facility from $50.0 million to $15.0 million, and further reduces the 2021 Revolving Facility to $10.0 million on March 31, 2025. Additionally, the 2024 Amended Credit Agreement reduced the letter of credit sublimit from $7.5 million to $5.0 million. Under the 2024 Amended Credit Agreement, the Company can increase the aggregate amount of the facility by $10.0 million, reduced from $25.0 million, subject to the satisfaction of certain conditions.

The 2024 Amended Credit Agreement revised the applicable interest rates for borrowings for the period commencing on July 22, 2024 through (but excluding) November 15, 2024 as follows: the Base Rate Loan increased from 0.75% to

1.25%, and the Term SOFR Loan and Letter of Credit Fees each increased from 1.75% to 2.25%. Beginning November 15, 2024, the Base Rate Loan will increase to 2.25% and the Term SOFR Loan and the Letter of Credit Fees will each increase to 3.25%. Additionally, the 2024 Amended Credit Agreement reduced the SOFR credit spread adjustment to 0.10%, which previously ranged from 0.11448% to 0.71513% depending on the SOFR tenor. The 2024 Amended Credit Agreement also added and modified certain financial covenants. Capitalized terms used without definition are as defined in the 2024 Amended Credit Agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as our audited consolidated financial statements and related notes as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, filed with the Securities and Exchange Commission ("SEC") on March 6, 2024 (the "2023 10-K"). This discussion contains forward-looking statements based upon current plans, expectations and beliefs involving risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in Item I, Part 1A, "Risk Factors" of the 2023 10-K and other factors set forth in other parts of this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.

Overview

Lulus is a customer-driven, primarily online, digitally-native, attainable luxury fashion brand for women, offering modern, unapologetically feminine designs at attainable prices for all of life's fashionable moments. Our aim is to make every woman feel beautiful, celebrated and as if she's the most special version of herself for every occasion – from work desk to dream date or cozied up on the couch to the spotlight of her wedding day. Lulus primarily serves a large, diverse community of Millennial and Gen Z women, who typically meet us in their 20s and stay with us through their 30s and beyond. We focus relentlessly on giving our customers what they want by using direct consumer feedback and insights to refine product offerings and elevate the customer experience. Lulus' world class personal stylists, bridal concierge, and customer care team share an unwavering commitment to elevating style and quality and bring exceptional customer service and personalized shopping to customers around the world.

Impact of Macroeconomic Trends on Business

Changing macroeconomic factors, including inflation, interest rates, and overall consumer confidence with respect to current and future economic conditions, have directly impacted our sales in the first six months of 2024 as discretionary consumer spending levels and shopping behavior fluctuate with these factors. During the first six months of 2024, we have responded to these factors by taking appropriate pricing, promotional and other actions to stimulate customer demand. These factors are expected to continue to have an impact on our business, results of operations, our growth and financial condition.

Liquidity

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the thirteen and twenty-six weeks ended June 30, 2024, we incurred net losses of $10.8 million and $16.5 million, respectively.

In November 2021, we entered into a Credit Agreement (the "2021 Credit Agreement") with Bank of America to provide a Revolving Facility (the "2021 Revolving Facility") that provided for borrowings up to $50.0 million. The 2021 Credit Agreement contained various financial covenants and had a maturity date of November 15, 2024 as described in Note 5, *Debt*. As of June 30, 2024, we had total cash and cash equivalents of $1.8 million and no amounts due under the 2021 Revolving Facility. On July 22, 2024, we entered into an amendment to the 2021 Credit Agreement (the "2024 Amended Credit Agreement") as described in Note 13, *Subsequent Events*.

During the thirteen and twenty-six weeks ended June 30, 2024, we incurred net losses of $10.8 million and $16.5 million, respectively. Despite the net losses, we generated net cash provided from operating activities of $3.7 million and $10.6 million, for the thirteen and twenty-six weeks ended June 30, 2024, respectively.

For the next twelve months, we will continue to take certain cost reduction and cash conservation measures, including adjustments to marketing and other variable and capital spend to meet our obligations and work to secure additional debt financing as needed. As the ability to raise additional debt financing is outside of our control, we cannot conclude that our plans will be effectively implemented within twelve months from the date the condensed consolidated financial statements are issued. Accordingly, we have concluded that these plans do not alleviate substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements do not reflect any adjustments relating to the outcome of this uncertainty.

Key Operating and Financial Metrics

We collect and analyze operating and financial data to assess the performance of our business and optimize resource allocation. The following table sets forth our key performance indicators for the periods presented.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
	(in thousands, except percentages and Average Order Value)			
Gross Margin	45.5 %	44.7 %	44.0 %	43.3 %
Net loss	$ (10,796)	$ (2,597)	$ (16,532)	$ (8,215)
Adjusted EBITDA (1)	$ (207)	$ 4,219	$ (2,866)	$ 4,235
Adjusted EBITDA margin (1)	(0.2)%	4.0 %	(1.7)%	2.1 %
Active Customers	2,670	3,080	2,670	3,080
Average Order Value	$ 143	$ 135	$ 143	$ 132

(1) For a reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measure and why we consider them useful, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures.”

Active Customers

We define Active Customers as the number of customers who have made at least one purchase across our platform in the prior 12-month period. Active Customer count is as of the last day of the relevant period. We consider the number of Active Customers to be a key performance metric on the basis that it is directly related to consumer awareness of our brand, our ability to attract visitors to our primarily digital platform, and our ability to convert visitors to paying customers. Active Customers counts are based on de-duplication logic using customer account and guest checkout name, address, and email information.

Average Order Value

We define Average Order Value (“AOV”) as the sum of the total gross sales before returns across our platform in a given period, plus shipping revenue, less discounts and markdowns, divided by the Total Orders Placed (as defined below) in that period. AOV reflects average basket size of our customers. AOV may fluctuate as we continue investing in the development and introduction of new Lulus merchandise and as a result of our promotional discount activity.

Total Orders Placed

We define Total Orders Placed as the number of customer orders placed across our platform during a particular period. An order is counted on the day the customer places the order. We do not adjust the number of Total Orders Placed for any cancellation or return that may have occurred subsequent to a customer placing an order. We consider Total Orders Placed as a key performance metric on the basis that it is directly related to our ability to attract and retain customers as well as drive purchase frequency. Total Orders Placed, together with AOV, is an indicator of the net revenue we expect to generate in a particular period.

Gross Margin

We define Gross Margin as gross profit as a percentage of our net revenue. Gross profit is equal to our net revenue less cost of revenue. Certain of our competitors and other retailers may report cost of revenue differently than we do. As a result, the reporting of our gross profit and Gross Margin may not be comparable to other companies.

Non-GAAP Financial Measures

We report our financial results in accordance with generally accepted accounting principles in the U.S. ("GAAP"). However, management believes that certain non-GAAP financial measures provide investors with additional useful information in evaluating our performance and that excluding certain items that may vary substantially in frequency and magnitude period-to-period from net loss provides useful supplemental measures that assist in evaluating our ability to generate earnings and to more readily compare these metrics between past and future periods. These non-GAAP financial measures may be different than similarly titled measures used by other companies.

Adjusted EBITDA, Adjusted EBITDA Margin, and Free Cash Flow

Adjusted EBITDA is a non-GAAP financial measure that we calculate as net loss before interest expense, income taxes, depreciation and amortization adjusted to exclude the effects of equity-based compensation expense and other non-routine expenses. Adjusted EBITDA is a key measure used by management to evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital.

To supplement our condensed consolidated financial statements which are prepared in accordance with GAAP, we use "Adjusted EBITDA", "Adjusted EBITDA Margin" (collectively referred to as "Adjusted EBITDA") and "Free Cash Flow" which are non-GAAP financial measures. Our non-GAAP financial measures should not be considered in isolation from, or as substitutes for, financial information prepared in accordance with GAAP. There are several limitations related to the use of our non-GAAP financial measures as compared to the closest comparable GAAP measures. Some of these limitations include:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- Adjusted EBITDA does not reflect our tax expense or the cash requirements to pay our taxes;
- Adjusted EBITDA does not reflect certain non-routine expenses that may represent a reduction in cash available to us;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and such measures do not reflect any cash requirements for such replacements;
- Free Cash Flow does not represent the total residual cash flow available for discretionary purposes; and
- other companies in our industry may calculate such measures differently than we do, limiting their usefulness as comparative measures.

Due to these limitations, Adjusted EBITDA and Adjusted EBITDA Margin should not be considered as measures of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using these non-GAAP measures only supplementally. As noted in the table below, Adjusted EBITDA includes adjustments to exclude the impact of depreciation and amortization, interest expense, income taxes, equity-based compensation expense and other non-routine expenses. It is reasonable to expect that some of these items will occur in future periods. However, we believe these adjustments are appropriate because the amounts recognized can vary significantly from period to period, do not directly relate to the ongoing operations of our business and may complicate comparisons of our internal results of operations and results of operations of other companies over time. In addition, Adjusted EBITDA includes adjustments for other items that we do not expect to regularly record. Each of the normal recurring adjustments and other adjustments described in this paragraph and in the following reconciliation table help management with a measure of our core operating performance over time by removing items that are not related to day-to-day operations. Adjusted EBITDA Margin is a non-GAAP financial measure that we calculate as Adjusted EBITDA (as defined above) as a percentage of our net revenue.

The following table provides a reconciliation for Adjusted EBITDA and Adjusted EBITDA Margin:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
	(in thousands)		(in thousands)	
Net loss	$ (10,796)	$ (2,597)	$ (16,532)	$ (8,215)
Depreciation and amortization	1,371	1,185	2,710	2,306
Interest expense	270	426	653	949
Income tax provision	6,331	874	5,752	166
Equity-based compensation expense (1)	2,194	4,331	4,128	9,029
Other non-routine expense (2)	423	-	423	-
Adjusted EBITDA	$ (207)	$ 4,219	$ (2,866)	$ 4,235
Net loss margin	(11.7)%	(2.4)%	(9.8)	(4.2)
Adjusted EBITDA Margin	(0.2)%	4.0 %	(1.7)%	2.1 %

(1) The thirteen weeks ended June 30, 2024 and July 2, 2023 include equity-based compensation expense for restricted stock units (“RSUs”) granted during the period and prior periods, as well as performance stock units (“PSUs”) and equity-based awards granted in prior periods. The twenty-six weeks ended June 30, 2024 include equity-based compensation expense for RSUs and PSUs granted during the period and prior periods, as well as equity-based awards granted in prior periods. The twenty-six weeks ended July 2, 2023 include equity-based compensation expense for PSUs granted during the period, RSUs granted during the period and prior periods, accelerated expense in the period associated with the voluntary forfeiture of stock options, and equity-based awards granted in prior periods.

(2) The thirteen and twenty-six weeks ended June 30, 2024 include non-routine expenses related to a legal reserve accrual net of an anticipated and contingent insurance receivable. See Note 7, *Commitments and Contingencies - Litigation and Other*, in the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for more information.

Free Cash Flow

Free Cash Flow is a non-GAAP financial measure that we calculate as net cash provided by operating activities less cash used for capitalized software development costs and purchases of property and equipment. We view Free Cash Flow as an important indicator of our liquidity because it measures the amount of cash we generate.

A reconciliation to non-GAAP Free Cash Flow from net cash provided by operating activities for the thirteen and twenty-six weeks ended June 30, 2024 and July 2, 2023 is as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Net cash provided by operating activities	$ 3,690	$ 4,646	$ 10,637	$ 8,351
Capitalized software development costs	(341)	(475)	(738)	(1,026)
Purchases of property and equipment	(323)	(208)	(885)	(726)
Free Cash Flow	$ 3,026	$ 3,963	$ 9,014	$ 6,599

Factors Affecting Our Performance

Our financial condition and results of operations have been, and will continue to be, affected by a number of factors that present significant opportunities for us but also pose risks and challenges, including what is discussed below. See Part I, “Item 1A. Risk Factors” in our 2023 10-K.

Customer Acquisition

Our business performance depends in part on our continued ability to cost-effectively acquire new customers. We define customer acquisition cost (“CAC”) as our brand and performance marketing expenses attributable to acquiring new customers, including, but not limited to, agency costs and marketing team costs but excluding any applicable equity-based compensation, divided by the number of customers who placed their first order with us in a given period. As a primarily digital brand, our marketing strategy is primarily focused on brand awareness marketing and digital advertising in channels like search, social, and programmatic – platforms that enable us to engage our customer where she spends her time, and in many cases also quickly track the success of our marketing, which allows us to adjust and optimize our marketing spend.

Customer Retention

Our continued success depends in part on our ability to retain and drive repeat purchases from our existing customers. We monitor retention across our entire customer base. Our goal is to attract and convert visitors into Active Customers and foster relationships that drive repeat purchases. During the trailing 12 months ended June 30, 2024, we served 2.7 million Active Customers compared to 3.1 million for the trailing 12 months ended July 2, 2023.

Inventory Management

We utilize a data-driven strategy that leverages our proprietary reorder algorithm to manage inventory as efficiently as possible. Our “test, learn, and reorder” approach consists of limited inventory purchases followed by the analysis of proprietary data including real-time transaction data and customer feedback, which then informs our selection and customization of popular merchandise prior to reordering in larger quantities. While our initial orders are limited in size and financial risk and our supplier partners are highly responsive, we nonetheless purchase inventory in anticipation of future demand and therefore are exposed to potential shifts in customer preferences and price sensitivity over time. As we continue to grow, we will adjust our inventory purchases to align with the current needs of the business.

Investment in Our Operations and Infrastructure

We will continue to invest in our operations and infrastructure to facilitate further operational efficiencies and growth of our business, while managing expenses to align with our net revenue expectations and goals to return to profitability. We will continue to set a high bar for any new investments or capital spending initiatives as we believe that a disciplined approach to capital spending will enable us to generate positive returns on our investments over the long term.

Components of Our Results of Operations

Net Revenue

Net revenue consists primarily of gross sales, net of merchandise returns, international duties and taxes and promotional discounts and markdowns, generated from the sale of apparel, footwear, and accessories. Net revenue excludes sales taxes assessed by governmental authorities. We recognize net revenue at the point in time when control of the ordered product is transferred to the customer, which we determine to have occurred upon shipment.

Cost of Revenue and Gross Margin

Cost of revenue consists of the product costs of merchandise sold to customers; shipping and handling costs, including all inbound, outbound, and return shipping expenses; rent, insurance, business property tax, utilities, depreciation and amortization, and repairs and maintenance related to our distribution facilities; and charges related to inventory shrinkage, damages, and our allowance for excess or obsolete inventory. Cost of revenue is primarily driven by growth in orders placed by customers, the mix of the product available for sale on our site, and transportation costs related to inventory receipts from our suppliers. We expect our cost of revenue to fluctuate as a percentage of net revenue primarily due to how we manage our inventory and merchandise mix.

Gross profit is equal to our net revenue less cost of revenue. We calculate Gross Margin as gross profit as a percentage of our net revenue. Our Gross Margin varies across Lulus, exclusive to Lulus, and third-party branded products. Exclusive to Lulus consists of products that we develop with design partners and have exclusive rights to sell across our platform, but that do not bear the Lulus brand. Gross Margin on sales of Lulus and exclusive to Lulus merchandise is generally higher than Gross Margin on sales of third-party branded products, which we offer for customers to “round out” the shopping basket. As we continue to optimize our distribution capabilities and gain more negotiation leverage with suppliers as we scale, our Gross Margin may fluctuate from period to period depending on the interplay of these factors.

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of payment processing fees, advertising, targeted online performance marketing and customer order courtesy adjustments. Selling and marketing expenses also include our spend on brand marketing channels, including compensation and free products to social media influencers, events, and other forms of online and offline marketing related to growing and retaining the customer base. As discussed in “Net Revenue” above, in any given period, the amount of our selling and marketing expense can be affected by the use of promotional discounts in such period.

General and Administrative Expenses

General and administrative expenses consist primarily of payroll and benefits costs, including equity-based compensation for our employees involved in general corporate functions including finance, merchandising, marketing, and technology, as well as costs associated with the use by these functions of facilities and equipment, including depreciation, rent, and other occupancy expenses. General and administrative expenses are primarily driven by increases in headcount required to support business growth and meet our obligations as a public company.

Since our IPO, we have incurred significant legal, accounting, and other expenses that we did not incur as a private company. We expect that compliance with the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC, will continue to increase our legal and financial compliance costs and will make some activities more time consuming and costly.

Interest Expense

Interest expense consists of interest expense related to the 2021 Revolving Facility.

Provision for Income Taxes

The provision for income taxes represents federal, state, and local income taxes. The effective rate differs from the statutory rate primarily due to the establishment of valuation allowance as the Company could not provide sufficient positive evidence that the deferred taxes will be more-likely-than-not realized in the future. Our effective tax rate will change from quarter to quarter based on recurring and nonrecurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, the impact of permanent tax adjustments, tax audit settlements, and the interaction of various tax strategies.

We regularly assess the realizability of deferred tax assets and record a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be realized. In assessing the realizability of our deferred tax assets, we weigh all available positive and negative evidence. This evidence includes, but is not limited to, historical earnings, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Due to the weight of objectively verifiable negative evidence, we established a valuation allowance of $5.4 million against certain federal and state deferred tax assets during the thirteen weeks ended June 30, 2024. This was comprised of a valuation allowance of $5.7 million for the net deferred tax assets as of December 31, 2023 and an adjustment of $0.3 million for the twenty-six week period through June 30, 2024. The significant piece of objectively verifiable negative evidence evaluated was the recent cumulative losses. Our ability to use our deferred tax assets depends on the amount of taxable income in future periods.

Our Results of Operations

The following tables set forth our consolidated results of operations for the periods presented and as a percentage of net revenue and net loss:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
	(in thousands)			
Net revenue	$ 91,966	$ 106,122	$ 169,225	$ 197,098
Cost of revenue	50,083	58,726	94,696	111,741
Gross profit	41,883	47,396	74,529	85,357
Selling and marketing expenses	24,914	24,670	42,607	44,159
General and administrative expenses	21,436	24,396	42,547	48,744
Loss from operations	(4,467)	(1,670)	(10,625)	(7,546)
Interest expense	(270)	(426)	(653)	(949)
Other income, net	272	373	498	446
Loss before income taxes	(4,465)	(1,723)	(10,780)	(8,049)
Income tax provision	(6,331)	(874)	(5,752)	(166)
Net loss	$ (10,796)	$ (2,597)	$ (16,532)	$ (8,215)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023	June 30, 2024	July 2, 2023
Net revenue	100 %	100 %	100 %	100 %
Cost of revenue	54	55	56	57
Gross profit	46	45	44	43
Selling and marketing expenses	28	24	25	22
General and administrative expenses	23	23	25	25
Loss from operations	(5)	(2)	(6)	(4)
Interest expense	—	—	—	—
Other income, net	—	—	—	—
Loss before income taxes	(5)	(2)	(6)	(4)
Income tax provision	(7)	(1)	(3)	—
Net loss	(12)%	(3)%	(9)%	(4)%

Comparisons for the Thirteen Weeks Ended June 30, 2024 and July 2, 2023

Net Revenue

Net revenue decreased in the thirteen weeks ended June 30, 2024 by $14.2 million, or 13%, compared to the thirteen weeks ended July 2, 2023. The decrease is primarily the result of a 14% decrease in Total Orders Placed, as well as higher return rates, partially offset by higher AOV compared to the thirteen weeks ended July 2, 2023.

Cost of Revenue

Cost of revenue decreased in the thirteen weeks ended June 30, 2024 by $8.6 million, or 15% compared to the same period of the prior year, which was primarily driven by the impact of lower net revenue.

Gross Profit

Gross profit decreased in the thirteen weeks ended June 30, 2024 by $5.5 million, or 12% compared to the same period of the prior year which was primarily driven by the impact of the lower volume of sales.

Selling and Marketing Expenses

Selling and marketing expenses increased in the thirteen weeks ended June 30, 2024 by $0.2 million, or 1%, compared to the thirteen weeks ended July 2, 2023, primarily due to higher brand marketing spend as we invested more in brand awareness.

General and Administrative Expenses

General and administrative expenses decreased by $3.0 million in the thirteen weeks ended June 30, 2024, or 12%, compared to the thirteen weeks ended July 2, 2023. The decrease was primarily due to a $1.3 million decrease in variable labor and benefits associated with lower sales volume and operational efficiencies, and a $2.1 million decrease related to equity-based awards, along with a $0.6 million decrease in D&O liability insurance and legal and professional fees. This was partially offset by a $0.4 million increase in non-routine items accruals, a $0.5 million increase in software, travel fixed labor, depreciation and amortization, and a $0.1 million increase in rent expense predominately due to our Melrose store.

Interest Expense

Interest expense decreased in the thirteen weeks ended June 30, 2024 by $0.2 million, or 37%, compared to the thirteen weeks ended July 2, 2023. The decrease is attributable to lower average borrowings, offset by higher interest rates driving increased interest expense and unused fees related to the 2021 Revolving Facility.

Income Tax Provision

Our income tax provision in the thirteen weeks ended June 30, 2024 increased by $5.4 million, to $6.3 million compared to a provision of $0.9 million in the thirteen weeks ended July 2, 2023. The increase was primarily due to the valuation allowance tax expense that was recorded against federal and state deferred tax assets.

Comparisons for the Twenty-Six Weeks Ended June 30, 2024 and July 2, 2023

Net Revenue

Net revenue decreased in the twenty-six weeks ended June 30, 2024 by $27.9 million, or 14%, compared to the twenty-six weeks ended July 2, 2023. The decrease is primarily the result of a 15% decrease in Total Orders Placed, as well as higher return rates, partially offset by higher AOV compared to the twenty-six weeks ended July 2, 2023.

Cost of Revenue

Cost of revenue decreased in the twenty-six weeks ended June 30, 2024 by $17.0 million, or 15%, compared to the twenty-six weeks ended July 2, 2023, which was primarily driven by the impact of lower net revenue.

Gross Profit

Gross profit decreased in the twenty-six weeks ended June 30, 2024 by $10.8 million, or 13% compared to the twenty-six weeks ended July 2, 2023, which was primarily driven by the impact of the lower volume of sales.

Selling and Marketing Expenses

Selling and marketing expenses decreased in the twenty-six weeks ended June 30, 2024 by $1.6 million, or 4%, compared to the twenty-six weeks ended July 2, 2023 due to lower performance marketing spend and favorability in merchant processing fees due to the lower sales volume, partially offset by higher brand marketing spend as we invested more in brand awareness.

General and Administrative Expenses

General and administrative expenses decreased by $6.2 million in the twenty-six weeks ended June 30, 2024, or 13%, compared to the twenty-six weeks ended July 2, 2023. The decrease was primarily due to a $4.9 million decrease in equity based compensation expense, a $2.1 million decrease in variable labor and benefits costs primarily associated with lower sales volume and operational efficiencies, and a $0.6 million decrease in D&O insurance costs, partially offset by $0.5 million higher fixed labor costs, a $0.4 million increase in non-routine items accruals, a $0.3 million increase in depreciation and amortization and a $0.2 million increase in software expenses.

Interest Expense

Interest expense decreased in the twenty-six weeks ended June 30, 2024 by $0.3 million, or 31%, compared to the twenty-six weeks ended July 2, 2023. The decrease is attributable to lower average borrowings, partially offset by higher interest rates driving increased interest expense and unused fees related to the 2021 Revolving Facility.

Income Tax Provision

Our income tax provision in the twenty-six weeks ended June 30, 2024 increased by $5.6 million to $5.8 million, compared to a provision of $0.2 million in the twenty-six weeks ended July 2, 2023. The increase was primarily due to the valuation allowance tax expense that was recorded against federal and state deferred tax assets.

Quarterly Trends and Seasonality

We experience moderate seasonal fluctuations in aggregate sales volume during the year. Seasonality in our business does not follow that of traditional retailers, such as a typical concentration of revenue in the holiday quarter. Our net revenue is typically highest in the second and third quarters due to the highest demand for event dresses in the spring and summer. Net revenue is typically the lowest in the first and fourth quarters when event dresses are less in demand. The seasonality of our business has resulted in variability in our total net revenue quarter-to-quarter. We believe that this seasonality has affected and will continue to affect our results of operations.

Our quarterly gross profit fluctuates primarily based on how we manage our inventory and merchandise mix and has typically been in line with fluctuations in net revenue. When quarterly gross profit fluctuations have deviated relative to the fluctuations in sales, these situations have been driven by non-recurring, external factors, such as the COVID-19 pandemic.

Selling and marketing expenses generally fluctuate with net revenue. Further, in any given period, the amount of our selling and marketing expense can be affected by the use of promotional discounts in such period. In addition, we may increase or decrease marketing spend to assist with optimizing inventory mix and quantities.

General and administrative expenses consist primarily of payroll and benefit costs and vary quarter to quarter due to changes in the number of seasonal workers to meet demand based on our seasonality.

Liquidity and Capital Resources

Our primary sources of liquidity and capital resources are cash generated from operating activities and borrowings under our 2021 Revolving Facility, as amended by the 2024 Amended Credit Agreement**.** Our primary requirements for liquidity and capital are inventory purchases, payroll and general operating expenses, capital expenditures associated with distribution, network expansion and capitalized software and debt service requirements.

Credit Facilities

On November 15, 2021, we entered into the 2021 Credit Agreement with Bank of America to provide the 2021 Revolving Facility that provided for borrowings up to $50.0 million. During the twenty-six weeks ended June 30, 2024, we borrowed $20.0 million under the 2021 Revolving Facility and repaid $28.0 million of the outstanding balance. As of June 30, 2024, we had $0.3 million outstanding under the Letter of Credit. Subject to the satisfaction of certain conditions under the 2021 Credit Agreement, as of June 30, 2024, we had $49.7 million available for borrowing under the 2021 Revolving Facility and $7.2 million available to issue letters of credit. For further information on the 2021 Credit Agreement and Revolving Facility, see Note 5, *Debt*.

The 2021 Revolving Facility had a maturity date of November 15, 2024, and borrowings thereunder accrued interest at a rate equal to, at our option, either (x) the term SOFR rate, plus the applicable SOFR adjustment plus a margin of 1.75% per annum or (y) the base rate plus a margin of 0.75% (with the base rate being the highest of the federal funds rate plus 0.50%, the prime rate and term SOFR for a period of one month plus 1.00%). The 2021 Revolving Facility contained a financial maintenance covenant requiring a maximum total leverage ratio of no more than 2.50:1.00, stepping down to 2.00:1.00 after 18 months. A commitment fee of 37.5 basis points was assessed on unused commitments under the 2021 Revolving Facility.

On July 22, 2024, we entered into the 2024 Amended Credit Agreement as described in Note 13, Subsequent Events. The 2024 Amended Credit Agreement reduced the 2021 Revolving Facility to $15.0 million and further reduces the 2021 Revolving Facility to $10.0 million on March 31, 2025. During the term of the 2024 Amended Credit Agreement, we may increase the aggregate amount of the facility up to an additional $10.0 million, subject to the satisfaction of certain conditions under the 2024 Amended Credit Agreement, including obtaining the consent of the administrative agent and an increased commitment from existing or new lenders. In addition, the 2024 Amended Credit Agreement may be used to issue letters of credit up to $5.0 million.

The 2024 Amended Credit Agreement provides for a nine month extension of the maturity date to August 15, 2025, and borrowings thereunder will accrue interest at a rate equal to, at our option, either (x) the term SOFR rate, plus the applicable SOFR adjustment plus a margin of 2.25% per annum (up from 1.75%) or (y) the base rate plus a margin of 1.25% (up from 0.75%). The 2024 Amended Credit Agreement contains a financial maintenance covenant requiring a maximum total leverage ratio of no more than 2.00:1.00 for fiscal quarters ending on or after June 30, 2023. The 2024 Amended Credit Agreement also provides for a Consolidated Fixed Charge Coverage Ratio commencing June 30, 2024, to be no less than 1.15:1.0. A commitment fee of 37.5 basis points will be assessed on unused commitments under the 2024 Amended Credit Agreement. Capitalized terms used without definition are as defined in the 2024 Amended Credit Agreement.

Availability and Use of Cash

As of June 30, 2024, we had cash and cash equivalents of $1.8 million. We will continue to take certain cost reduction and cash conservation measures, including adjustments to marketing and other variable and capital spend to meet our obligations as needed. As the ability to raise additional debt financing is outside of our control, we cannot conclude that our plans will be effectively implemented within twelve months from the date the condensed consolidated financial statements are issued. Accordingly, we have concluded that these plans do not alleviate substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements do not reflect any adjustments relating to the outcome of this uncertainty. Actual results of operations will depend on numerous factors, many of which are beyond our control, as further discussed in Part I, Item 1A, “Risk Factors” included in our 2023 10-K and risk factors set forth in Part II of this Quarterly Report on Form 10-Q.

Repurchases Pursuant to the 2024 Repurchase Program

On May 3, 2024, the Company's Board of Directors authorized a stock repurchase program to repurchase up to $2.5 million of our common stock (the “2024 Repurchase Program”). The actual timing, number, and value of shares repurchased in the future will be determined by the Company in its discretion and will depend on a number of factors, including market conditions, applicable legal requirements, our capital needs, and whether there is a better alternative use of capital. Repurchases will be funded from the Company’s existing cash and cash equivalents, or future cash flow. The 2024 Repurchase Program may be modified, suspended, or terminated at any time. During the thirteen and twenty-six weeks ended June 30, 2024, the Company repurchased 47,850 shares of common stock in open market transactions pursuant to a 10b5-1 purchase plan entered into by the Company. As of June 30, 2024, the Company had $2.4 million available under the 2024 Repurchase Program authorization. For further information on the 2024 Repurchase Program, see Note 2, *Significant Accounting Policies*.

Cash Flow Analysis

The following table summarizes our cash flows for the periods indicated:

	Twenty-Six Weeks Ended	
	June 30, 2024	July 2, 2023
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ 10,637	$ 8,351
Investing activities	(1,623)	(1,752)
Financing activities	(9,739)	(10,871)
Net decrease in cash, cash equivalents and restricted cash	$ (725)	$ (4,272)

Operating Activities

Net cash provided by operating activities consists primarily of net loss adjusted for certain non-cash items, including depreciation, amortization, equity-based compensation, the effect of changes in working capital and other activities.

During the twenty-six weeks ended June 30, 2024, net cash provided by operating activities increased by $2.2 million, as compared to the same period in 2023. The increase was largely due to a $10.5 million increase related to accrued expenses and other current liabilities mainly due to timing-related increases in accrued inventory of $5.2 million and accrued marketing of $2.4 million, a $1.7 million increase due to a non-routine legal reserve accrual, and a $1.4 million increase in miscellaneous accruals. There was also a $1.7 million increase related to other current liabilities, $0.8 million reduction in inventory purchases and a $0.4 million decrease related to assets for recovery, both of which were attributed to lower sales, as well as a $0.1 million timing-related decrease in prepaids and other current assets. This was partially offset by an increase of $7.2 million in our net loss after adjusting for non-cash items, an increase of $1.8 million in income taxes refund receivable, an increase of $1.0 million in accounts receivable, a decrease of $1.0 million in accounts payable primarily related to the timing of payments related to our credit card payables and a $0.3 million decrease related to operating lease liabilities.

Investing Activities

Our primary investing activities have consisted of purchases of equipment to support our overall business growth and internally developed software for the continued development of our proprietary technology infrastructure. Purchases of property and equipment may vary from period-to-period due to timing of the expansion of our operations. We have no material commitments for capital expenditures.

During the twenty-six weeks ended June 30, 2024, as compared to the same period in 2023, net cash used in investing activities decreased by $0.2 million. This was attributable to $0.3 million less invested in capitalized software development costs and $0.1 million higher capital expenditures for furniture, leasehold improvements, equipment, and construction in progress for our general operations.

Financing Activities

Financing activities consist primarily of borrowings and repayments related to our 2021 Revolving Facility.

During the twenty-six weeks ended June 30, 2024, net cash used in financing activities decreased by $1.2 million compared to the same period in 2023. The decrease was primarily due to higher net borrowings of $2.0 million on our 2021 Revolving Facility, $0.4 million increase in finance lease payments primarily attributed to leased equipment for our distribution facilities, $0.2 million increase in withheld tax payments related to vesting of RSUs, $0.1 million decrease in proceeds received from issuance of common stock under our ESPP and $0.1 million increase related to the 2024 Repurchase Program.

Contractual Obligations and Commitments

Other than the 2024 Amended Credit Agreement discussed in Note 13, *Subsequent Events*, there have been no other material changes to our contractual obligations and commitments as disclosed in our 2023 10-K.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with GAAP. The preparation of condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from our estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

Our critical accounting policies are described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” in our 2023 10-K and the notes to the audited consolidated financial statements appearing elsewhere in our 2023 10-K. There have been no significant changes to our critical accounting policies and estimates as disclosed in our 2023 10-K.

Recent Accounting Pronouncements

See Note 2, "Significant Accounting Policies - Recently Issued Accounting Pronouncements," in the Notes to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for more information about recent accounting pronouncements, the timing of their adoption, and our assessment, to the extent we have made one, of their potential impact on our financial position and our results of operations.

JOBS Act Accounting Election

We are an "emerging growth company," as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to use this extended transition period until we are no longer an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period. Accordingly, our consolidated financial statements and our unaudited interim condensed consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There has been no material change in our exposure to market risk from that discussed in our 2023 10-K.

Item 4. Controls and Procedures.

Limitations on effectiveness of controls and procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2024, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are from time to time subject to various legal proceedings and claims, including employment claims, wage and hour claims, intellectual property claims, privacy claims, contractual and commercial disputes and other matters that arise in the ordinary course of our business. As of the date of this filing, we have received a cease and desist letter alleging intellectual property infringement that has not proceeded to formal legal proceedings. In the thirteen weeks ended June 30, 2024, the Company recorded a loss contingency accrual of $1.7 million for estimated losses that we expect to incur in connection with this claim, and a related anticipated and contingent insurance receivable of $1.3 million. While the outcome of this and other claims cannot be predicted with certainty, other than as discussed above, we do not believe that the outcome of these matters will have a material adverse effect on our business, financial condition, cash flows, or results of operations. Other than as discussed above, we are not presently a party to any legal proceedings that we believe would, if determined adversely to us, materially and adversely affect our future business, financial condition, cash flows, or results of operations.

Item 1A. Risk Factors.

For detailed information about certain risk factors that could materially affect our business, financial condition or future results see “Risk Factors” in Part I, Item 1A of our 2023 10-K. Set forth below are material changes to our existing risk factors previously disclosed in the 2023 10-K. Other than the risk factors set forth below, there have been no material changes to the risk factors previously disclosed in the 2023 10-K.

We cannot guarantee that our 2024 Repurchase Program will enhance long-term stockholder value. Stock repurchases could also increase the volatility of the trading price of our stock and could diminish our cash reserves.

Although our board of directors has authorized the 2024 Repurchase Program, the program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares of common stock. The actual timing, number, and value of shares repurchased in the future will be determined by the Company in its discretion and will depend on a number of factors, including stock price, trading volume, market conditions, applicable legal requirements, our capital needs, and whether there is a better alternative use of capital. The 2024 Repurchase Program has no expiration date but it may be modified, suspended or terminated at any time, and we cannot guarantee that we will purchase shares up to the full dollar amount authorized by the 2024 Repurchase Program or that it will enhance long-term stockholder value. The failure to repurchase common stock after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and may negatively affect our stock price. Furthermore, our execution of the share repurchase program could affect the trading price of our common stock and increase volatility, and any announcement of a termination of the 2024 Repurchase Program may result in a decrease in the trading price of our common stock. In addition, the 2024 Repurchase Program could diminish our cash reserves.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

A summary of our common stock repurchases during the thirteen weeks ended June 30, 2024 is set forth in the table below.

Period	Total Number of Shares Purchased [1]	Weighted Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Publicly Announced Plan	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan
April 1, 2024 through April 30, 2024	-	$ -	-	$ -
May 1, 2024 through May 31, 2024	20,373	$ 1.78	20,373	$ 2,463,797
June 1, 2024 through June 30, 2024	27,477	$ 1.86	27,477	$ 2,412,757

(1) On May 3, 2024, the Company's Board of Directors authorized a stock repurchase program allowing the Company to repurchase up to an aggregate amount of $2.5 million of its shares of common stock (the "2024 Repurchase Program"). The 2024 Repurchase Program may be modified, suspended or terminated by the Company’s Board of Directors at any time. All shares repurchased during the thirteen weeks ended June 30, 2024 were repurchased in open market transactions pursuant to a 10b5-1 purchase plan entered into by the Company.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Securities Trading Plans of Directors and Executive Officers

On June 13, 2024, David McCreight, a director of the Company, entered into a 10b5-1 sales plan intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. The 10b5-1 sales plan, which was entered into during an open trading window under the Company's insider trading policy, provides for the sale of up to 633,000 shares of common stock. The trading plan is intended to permit the orderly disposition of a portion of the director's holdings as part of his long-term financial and tax plan. The 10b5-1 sales plan becomes effective on September 16, 2024 and will terminate on the earlier of September 17, 2025, the date all shares covered under the 10b5-1 sales plan are sold, or the date a termination event occurs as provided in the 10b5-1 sales plan. The 10b5-1 sales plan can be modified or amended by Mr. McCreight during any open trading window under the Company's insider trading policy. No sales of shares have been made under the 10b5-1 sales plan.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/
		Form	File No.	Exhibit	Filing Date	Furnished Herewith
10.1	First Amendment to Credit Agreement, dated as of July 22, 2024, among Lulu's Fashion Lounge, LLC, Lulu's Fashion Lounge Parent, LLC, certain subsidiaries and Bank of America, N.A.	8-K	001-41059	10.1	07/25/2024	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.					**
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.					**
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (as formatted as Inline XBRL and contained in Exhibit 101)					*

* Filed herewith.
** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LULU'S FASHION LOUNGE HOLDINGS, INC.

Date: August 14, 2024	By: /s/ Crystal Landsem **Crystal Landsem** **Chief Executive Officer** *(Principal Executive Officer)*
Date: August 14, 2024	By: /s/ Tiffany R. Smith **Tiffany R. Smith** **Chief Financial Officer** *(Principal Financial and Accounting Officer)*

Exhibit 31.1

CERTIFICATION

I, Crystal Landsem, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lulu's Fashion Lounge Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Omitted];

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2024

By: /s/ Crystal Landsem
Crystal Landsem
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Tiffany R. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lulu’s Fashion Lounge Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [Omitted];

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 14, 2024

By: /s/ Tiffany R. Smith
Tiffany R. Smith
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Lulu's Fashion Lounge Holdings, Inc. (the "Company") for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2024

By: /s/ Crystal Landsem
Crystal Landsem
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Lulu’s Fashion Lounge Holdings, Inc. (the “Company”) for the period ended June 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2024

By: /s/ Tiffany R. Smith
Tiffany R. Smith
Chief Financial Officer
(Principal Financial and Accounting Officer)